

PERAC AUDIT REPORT



Hampshire County Contributory Retirement System

JAN. 1, 2002 - DEC. 31, 2004 / PERAC 04: 12-008-32



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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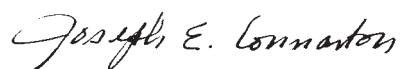
January 10, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Hampshire County Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2002** to December 31, **2004**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Harry Chadwick and Robert Madison who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Hampshire County Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

1. **Membership Contributions**

In the previous PERAC audit ending December 31, 2001, it was noted that 16 Unit Treasurers out of the 36 participating governmental units were not certifying, in writing, that employee payroll data was accurate and correct. The Hampshire County Retirement System has made significant progress in this area. Currently, there are only 2 Treasurers not certifying the payroll data.

In addition, the current audit, as well as the two PERAC audits ending December 31, 1998 and 2001, contained a determination that it was difficult to verify the components of “Regular Earnings”.

Recommendation:

The Hampshire County Retirement System has been reviewing this issue of “Regular Earnings” and has made considerable effort to ensure that the Regular Earnings category includes only earnings considered regular compensation. The Board, however, should verify by periodic sampling, or other means, that “Regular Earnings” excludes earnings not defined as regular compensation.

Although the Board has made progress in this area as well, formal procedures must be implemented to ensure that all components of earnings are considered regular compensation.

Hampshire County Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

ASSETS	FOR THE PERIOD ENDING DECEMBER 31,		
	2004	2003	2002
Cash	\$2,689,411	\$7,740,128	\$3,314,500
Short Term Investments	0	0	0
Fixed Income Securities	27,221,885	24,839,572	22,961,863
Equities	13,579,159	13,797,085	28,953,978
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	58,944,707	54,356,708	23,380,470
Pooled International Equity Funds	19,435,223	18,595,228	14,193,009
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	0	0	0
Pooled International Fixed Income Funds	0	0	0
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	891,936	941,981	836,374
Pooled Real Estate Funds	11,310,271	2,166,718	6,157,563
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	268,123	253,782	233,372
Accounts Receivable	562,345	538,520	416,659
Accounts Payable	(0)	(128,817)	(42,502)
TOTAL	<u>\$134,903,062</u>	<u>\$123,100,907</u>	<u>\$100,405,286</u>
FUND BALANCES			
Annuity Savings Fund	\$45,305,248	\$43,407,999	\$41,292,962
Annuity Reserve Fund	15,404,236	14,010,819	12,426,039
Pension Fund	4,938,095	8,751,460	10,428,568
Military Service Fund	28,051	14,919	8,987
Expense Fund	0	0	0
Pension Reserve Fund	69,227,431	56,915,710	36,248,730
TOTAL	<u>\$134,903,062</u>	<u>\$123,100,907</u>	<u>\$100,405,286</u>

Hampshire County Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2002)	\$38,475,611	\$11,751,896	\$12,865,162	\$13,730	\$0	\$53,263,930	\$116,370,329
Receipts	5,502,480	361,211	7,843,977	4,308	976,570	(17,005,518)	(2,316,973)
Interfund Transfers	(1,774,131)	1,786,598	0	(2,786)	0	(9,681)	(0)
Disbursements	(910,998)	(1,473,666)	(10,280,571)	(6,266)	(976,570)	0	(13,648,070)
Ending Balance (2002)	41,292,962	12,426,039	10,428,568	8,987	0	36,248,730	100,405,286
Receipts	5,810,155	406,445	9,531,747	12,280	842,393	20,654,042	37,257,062
Interfund Transfers	(2,798,154)	2,791,564	0	(6,348)	0	12,938	(0)
Disbursements	(896,964)	(1,613,230)	(11,208,855)	0	(842,393)	0	(14,561,441)
Ending Balance (2003)	43,407,999	14,010,819	8,751,460	14,919	0	56,915,710	123,100,907
Receipts	5,732,878	450,058	8,324,790	13,132	1,111,214	12,295,161	27,927,234
Interfund Transfers	(2,698,894)	2,682,335	0	0	0	16,559	0
Disbursements	(1,136,735)	(1,738,975)	(12,138,154)	0	(1,111,214)	0	(16,125,079)
Ending Balance (2004)	\$45,305,248	\$15,404,236	\$4,938,095	\$28,051	\$0	\$69,227,431	\$134,903,062

Hampshire County Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2004	2003	2002
Annuity Savings Fund:			
Members Deductions	\$4,996,883	\$4,911,703	\$4,642,114
Transfers from other Systems	302,229	354,993	211,279
Member Make Up Payments and Redeposits	60,490	134,909	131,930
Member Payments from Rollovers	128,987	20,615	0
Investment Income Credited to Member Accounts	<u>244,290</u>	<u>387,935</u>	<u>517,156</u>
Sub Total	<u>5,732,878</u>	<u>5,810,155</u>	<u>5,502,480</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>450,058</u>	<u>406,445</u>	<u>361,211</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	326,882	314,178	250,382
Received from Commonwealth for COLA and Survivor Benefits	256,397	519,187	568,621
Pension Fund Appropriation	<u>7,741,512</u>	<u>8,698,382</u>	<u>7,024,974</u>
Sub Total	<u>8,324,790</u>	<u>9,531,747</u>	<u>7,843,977</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	13,011	12,176	4,172
Investment Income Credited Military Service Fund	<u>121</u>	<u>105</u>	<u>136</u>
Sub Total	<u>13,132</u>	<u>12,280</u>	<u>4,308</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>1,111,214</u>	<u>842,393</u>	<u>976,570</u>
Sub Total	<u>1,111,214</u>	<u>842,393</u>	<u>976,570</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	74,725	41,053	28,232
Pension Reserve Appropriation	326,721	100,561	134,784
Interest Not Refunded	8,903	14,947	16,099
Excess Investment Income	<u>11,884,812</u>	<u>20,497,481</u>	<u>(17,184,633)</u>
Sub Total	<u>12,295,161</u>	<u>20,654,042</u>	<u>(17,005,518)</u>
TOTAL RECEIPTS	<u>\$27,927,234</u>	<u>\$37,257,062</u>	<u>(\$2,316,973)</u>

Hampshire County Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,			
Annuity Savings Fund:	2004	2003	2002
Refunds to Members	\$554,541	\$419,916	\$564,704
Transfers to other Systems	<u>582,194</u>	<u>477,048</u>	<u>346,294</u>
Sub Total	<u>1,136,735</u>	<u>896,964</u>	<u>910,998</u>
Annuity Reserve Fund:			
Annuities Paid	1,703,985	1,526,500	1,356,474
Option B Refunds	<u>34,990</u>	<u>86,730</u>	<u>117,191</u>
Sub Total	<u>1,738,975</u>	<u>1,613,230</u>	<u>1,473,666</u>
Pension Fund:			
Regular Pension Payments	8,967,457	8,016,849	7,032,476
Survivorship Payments	504,747	536,000	494,591
Ordinary Disability Payments	50,506	79,353	91,544
Accidental Disability Payments	1,362,414	1,245,374	1,121,283
Accidental Death Payments	308,396	313,651	310,248
Section 101 Benefits	44,260	45,961	45,514
3 (8) (c) Reimbursements to Other Systems	900,373	971,668	1,184,915
State Reimbursable COLA's Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>12,138,154</u>	<u>11,208,855</u>	<u>10,280,571</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>6,266</u>
Expense Fund:			
Board Member Stipend	32,000	17,500	24,524
Salaries	286,452	274,340	274,300
Legal Expenses	4,000	8,196	5,000
Medical Expenses	53	25	31
Fiduciary Insurance	17,659	7,674	0
Service Contracts	9,893	109	0
Rent Expense	35,625	32,840	0
Travel Expenses	12,492	11,217	15,029
Administrative Expenses	121,734	74,326	128,879
Furniture and Equipment	27,387	8,949	7,749
Management Fees	448,603	277,544	388,476
Custodial Fees	57,816	64,673	83,832
Consultant Fees	<u>57,500</u>	<u>65,000</u>	<u>48,750</u>
Sub Total	<u>1,111,214</u>	<u>842,393</u>	<u>976,570</u>
TOTAL DISBURSEMENTS	<u>\$16,125,079</u>	<u>\$14,561,441</u>	<u>\$13,648,070</u>

Hampshire County Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2004	2003	2002
Investment Income Received From:			
Cash	\$65,659	\$84,229	\$74,914
Short Term Investments	0	0	0
Fixed Income	1,619,082	1,489,368	1,702,674
Equities	75,112	179,615	364,061
Pooled or Mutual Funds	1,276,631	699,983	700,822
Commission Recapture	0	2,768	44,310
TOTAL INVESTMENT INCOME	<u>3,036,485</u>	<u>2,455,963</u>	<u>2,886,780</u>
Plus:			
Increase in Amortization of Fixed Income Securities	0	0	0
Realized Gains	1,382,567	2,569,502	2,052,931
Unrealized Gains	16,489,851	22,875,381	7,638,096
Interest Due and Accrued on Fixed Income Securities - Current Year	268,123	253,782	233,372
Sub Total	<u>18,140,541</u>	<u>25,698,665</u>	<u>9,924,398</u>
Less:			
Decrease in Amortization of Fixed Income Securities	0	0	0
Paid Accrued Interest on Fixed Income Securities	-252,521	-230,273	-174,664
Realized Loss	-1,685,867	-2,779,854	-10,889,512
Unrealized Loss	-5,294,361	-2,776,771	-16,783,786
Interest Due and Accrued on Fixed Income Securities - Prior Year	-253,782	-233,372	-292,776
Sub Total	<u>-7,486,531</u>	<u>-6,020,269</u>	<u>-28,140,738</u>
NET INVESTMENT INCOME	<u>13,690,494</u>	<u>22,134,359</u>	<u>-15,329,561</u>
Income Required:			
Annuity Savings Fund	244,290	387,935	517,156
Annuity Reserve Fund	450,058	406,445	361,211
Military Service Fund	121	105	136
Expense Fund	1,111,214	842,393	976,570
TOTAL INCOME REQUIRED	<u>1,805,682</u>	<u>1,636,878</u>	<u>1,855,072</u>
Net Investment Income	<u>13,690,494</u>	<u>22,134,359</u>	<u>-15,329,561</u>
Less: Total Income Required	<u>1,805,682</u>	<u>1,636,878</u>	<u>1,855,072</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>11,884,812</u>	<u>20,497,481</u>	<u>-17,184,633</u>

Hampshire County Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$2,689,411	2.01%	100
Short Term	0	0.00%	100
Fixed Income	27,221,885	20.30%	40 - 80
Equities	13,579,159	10.13%	40
Pooled Short Term Funds	0	0.00%	
Pooled Domestic Equity Funds	58,944,707	43.96%	
Pooled International Equity Funds	19,435,223	14.50%	
Pooled Global Equity Funds	0	0.00%	
Pooled Domestic Fixed Income Funds	0	0.00%	
Pooled International Fixed Income Funds	0	0.00%	
Pooled Global Fixed Income Funds	0	0.00%	
Pooled Alternative Investment Funds	891,936	0.67%	
Pooled Real Estate Funds	11,310,271	8.44%	
Pooled Domestic Balanced Funds	0	0.00%	
Pooled International Balanced Funds	0	0.00%	
PRIT Cash Fund	0	0.00%	
PRIT Core Fund	<u>0</u>	<u>0.00%</u>	100
GRAND TOTALS	<u>\$134,072,593</u>	<u>100.00%</u>	

For the year ending December 31, **2004**, the rate of return for the investments of the **Hampshire County** Retirement System was **11.07%**. For the five-year period ending December 31, **2004**, the rate of return for the investments of the **Hampshire County** Retirement System averaged **2.45%**. For the twenty-year period ending December 31, **2004**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Hampshire County** Retirement System was **9.48%**.

Hampshire County Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

The **Hampshire County** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

January 12, 2004

- 16.08 In accordance with PERAC Investment Guideline 99-3, the Hampshire County Retirement Board is authorized to invest in Ascent Venture Partners IV, L.P. The Board has been a satisfied investor in Ascent Venture Partners III and has submitted updated regulatory documents pertaining to its current and future investments with Ascent.

March 26, 2004

- 16.04 The Hampshire County Retirement System is authorized to act as custodian of the records of investment of the Board's assets invested in Real Estate and Alternative Investments. The Hampshire County Retirement Board shall insure that the Commission will be provided the reports and information required pursuant to 840 CMR 4.00. This exemption shall apply to the Board's following investments:

Ascent Venture Partners III
Ascent Venture Partners IV
Henderson Real Estate Investors (RESA)
Intercontinental Real Estate Investment Fund III
L&B Property Fund IV
Sentinel Realty Partners II
Sentinel Realty Partners VII

Please be further advised that these supplemental regulations are made retroactive for those years not yet audited by PERAC.

Hampshire County Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Hampshire County** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

Hampshire County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

Hampshire County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Hampshire County** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

July 20, 2004

New Retiree Beneficiary Selection Form

December 12, 1984

Employees who work more than 20 hours per week must become members in the Hampshire County Retirement System. Employees who have worked 130 days per year and whose pay is at least \$3,500.00 must become members of the retirement system.

Employees who qualify for membership and work the minimum of twenty (20) hours per week but less than forty (40) hours per week shall be granted creditable service prorated on the basis of a forty-hour week.

Cafeteria Workers and Teacher Aides who regularly work five (5) hours or more per day shall be granted full time creditable service. Full time service means forty (40) hours a week.

Call fire fighters and reserve police officers that earn \$250.00 or more per year must join the retirement system.

Hampshire County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

Creditable Service for Reserve police officers and call firefighters shall be credited as one (1) year for each five (5) years worked not to exceed five (5) years, provided that the call firefighter or reserve police officer is later appointed a permanent member of the force.

Refunds to former members for interest earned shall be calculated and granted according to actual service time not creditable service time for call firefighters and intermittent police.

Hampshire County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of a Chairman who shall be elected by the board members, a second member elected by the county retirement board advisory council, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Chairman:	Patrick E. Brock	Term Expires:	12/31/08
Appointed Member:	John J. Lillis III	Term Expires:	12/31/08
Elected Member:	Edward R. Montleon	Term Expires:	12/31/08
Elected Member:	Joseph A. Wilhelm III	Term Expires:	12/31/07
Appointed Member:	John B. Walsh	Term Expires:	12/16/07

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$50,000,000
Elected Member:)	St. Paul Travelers, National Union
		Fire and Arch Insurance Companies
Appointed Member:)	
Staff Employee:)	

Hampshire County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **The Segal Company** as of **January 1, 2004**.

The actuarial liability for active members was	\$112,005,798
The actuarial liability for retired and inactive members was	<u>116,462,442</u>
The total actuarial liability was	228,468,240
System assets as of that date were	<u>129,875,787</u>
The unfunded actuarial liability was	<u>\$98,592,453</u>
The ratio of system's assets to total actuarial liability was	56.85%
As of that date the total covered employee payroll was	\$61,370,678

The normal cost for employees on that date was 8.44% of payroll

The normal cost for the employer was 6.11% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: 5.50% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$ 129,875,787	\$ 228,468,240	\$ 98,592,453	56.8%	\$ 61,370,678	160.7%
1/1/2002	\$ 128,007,362	\$ 196,323,603	\$ 68,316,241	65.2%	\$ 58,453,919	116.9%
1/1/2000	\$ 109,844,400	\$ 173,148,000	\$ 63,303,600	63.4%	\$ 52,500,000	120.6%
1/1/1999	\$ 96,706,300	\$ 166,058,900	\$ 69,352,600	58.2%	\$ 54,799,500	126.6%
1/1/1998	\$ 85,351,600	\$ 154,164,200	\$ 68,812,600	55.4%	\$ 52,420,600	131.3%

Hampshire County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Superannuation	42	52	32	50	38	40	35	32	64	50
Ordinary Disability	0	0	0	1	0	1	1	0	0	0
Accidental Disability	4	3	4	2	2	2	1	4	5	3
Total Retirements	46	55	36	53	40	43	37	36	69	53
Total Retirees, Beneficiaries and Survivors	812	831	850	881	886	893	920	932	973	994
Total Active Members	2,508	2,259	2,413	2,459	2,239	2,644	2,516	2,660	2,627	2,610
Pension Payments										
Superannuation	\$4,094,078	\$4,247,978	\$4,718,007	\$5,012,051	\$5,408,287	\$6,078,058	\$6,401,617	\$7,032,476	\$8,016,849	\$8,967,457
Survivor/Beneficiary Payments	594,522	336,643	334,684	352,331	365,910	355,961	379,840	494,591	536,000	504,747
Ordinary Disability	93,943	94,391	94,817	110,087	107,894	101,794	106,941	91,544	79,353	50,506
Accidental Disability	873,556	959,104	975,159	1,015,673	1,025,626	1,090,871	1,122,824	1,121,283	1,245,374	1,362,414
Other	492,337	798,649	826,005	921,627	962,969	483,082	1,020,831	1,540,677	1,331,279	1,253,030
Total Payments for Year	\$6,148,436	\$6,436,765	\$6,948,672	\$7,411,769	\$7,870,686	\$8,109,766	\$9,032,053	\$10,280,571	\$11,208,855	\$12,138,154

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